Boeing Questions Suppliers' Merger

BY DOUG CAMERON AND THOMAS GRYTA

Boeing Co. on Tuesday raised concerns about **United Technologies** Corp.'s proposed takeover of **Rockwell Collins** Inc., threatening to cancel some contracts with the suppliers if the combination undermines competition in the aerospace supply chain.

A day after the $23 billion deal was made public, Boeing said it was skeptical the transaction would benefit its airline customers or the broader industry. "We would intend to exercise our contractual rights and pursue the appropriate regulatory options to protect our interests," the aircraft maker said in a statement.

In buying Rockwell, United Technologies is betting it can foster the industry's creation of the fully digital airplane. Aerospace companies are investing heavily to connect everything from engines and brakes, and even coffee pots, using sensors to guide them on when to schedule maintenance or replacements.

Such repairs have long been the most profitable part of the aircraft industry, prompting efforts by Boeing, Airbus SE and others to secure a larger slice of the business, moves potentially threatened by United Technologies' move on Rockwell Collins.

"It gives us the opportunity to do things that we wouldn't be able to do on our own," said United Technologies Chief Executive Greg Hayes on a Tuesday conference call. The combination with Rockwell Collins, he said, will make it easier to meet demand for digital offerings and integrate aircraft systems, with benefits like reducing overall weight.

United Technologies is already the world's largest aerospace supplier, with almost $30 billion in sales this year split evenly between engine maker Pratt & Whitney and UTC Aerospace Systems, which makes everything from landing gear to the motors that control wing flaps.

Rockwell Collins would add another $9 billion in annual sales derived from its business of cockpit controls and communication equipment and this year's purchase of B/E Aerospace, the biggest provider of aircraft seats. Rockwell also makes the sensors and communication systems that allows for real-time tracking of those products' performance and the need for maintenance.

Shares of Rockwell Collins rose slightly on Tuesday to $131, well below United Technologies' $140 offer and Rockwell's recent highs. Customer opposition and the potential of antitrust action given the sheer scale of the proposed deal—rather than product overlap—still leaves some question marks, analysts said. The deal is expected to close by the third quarter of 2018, after regulatory and competitive concerns are reviewed. Shares of United Technologies fell 5.7% to $111.21.

Mr. Hayes said the companies will have to work with customers that have changein- control clauses in their contracts, but played down the risks. "We don't see anything that will stop this transaction from happening," he said.

Credit Suisse analysts gave the deal an 80% chance of closing, mostly because of the lack of major overlaps, even with Boeing pushing against the takeover.

Both Airbus and Boeing privately lobbied last year against plans by Honeywell International Inc. to buy United Technologies, according to people familiar with the situation. However, Honeywell's $15 billion aerospace unit had far more product overlap with United Technologies.

Rockwell Collins CEO Kelly Ortberg would become head of a new United Technologies unit, Collins Aerospace systems, with annual sales of $23 billion, heft that some believe will unsettle Airbus and Boeing.

"This may greatly concern aircraft [makers] such as Airbus and Boeing as they confront an ever increasing proportion of their supply chain controlled by a single supplier," said Stephen Perry, managing director at Janes Capital Partners, a boutique aerospace investment bank.

On Tuesday, Mr. Hayes was already working to ease such worries. He noted the lack of overlapping products in the combination and said it would help cut costs for customers.

The projected cost savings from the takeover is net of any concessions made to customers, Mr. Hayes said. "We have factored in the fact that the customers will be looking for cost reduction."

An Airbus spokesman said the aircraft maker hopes "this M& A will not distract UTC from their top operational priority," which is delivering a new generation of Pratt & Whitney engines.

United Technologies' Pratt & Whitney division has struggled with its new geared turbofan jet engine that powers Airbus A320neo single-aisle planes. Efforts to fix the shortcomings have encountered repeated delays, and some analysts warned that the demands of integrating Rockwell Collins could aggravate the problem. United Technologies officials have said they expect the problems to be resolved this year.

—Robert Wall contributed to this article.

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